



PERSPECTIVES

Business Fallout from Russia's Invasion of Ukraine: Issues to Watch Entering a Second Year of War

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION

Just over a year after Russia's invasion of Ukraine, the conflict looks set to continue unabated, with limited prospects for a military breakthrough or shift in the strategic resolve of either side. In this brief article, we offer insights into some issues which businesses should be watching out for in the second year of the conflict, focusing on geopolitics and sanctions.

Our most notable risk for businesses is that while the tempo (and scope) of sanctions will likely not expand substantially, businesses with international supply chains and trading operations must remain alert to end-user exposure and heightened scrutiny of any residual trading relationship with Russian entities.

THE BIG PICTURE: NO SHORT-TERM RESOLUTION

There is little chance of a lasting ceasefire or a decisive victory by either side. This year will be an endurance test for all parties involved in the conflict: not just Ukraine and Russia, but also the "West"—that is, the loose coalition of the US, UK, and the majority of the European Union countries. Both Ukraine and Russia are committed to winning the war and have adopted maximalist positions; neither appears close to the point where they could expect to gain more from peace than from continuing the war—a prerequisite for a resolution. Far from capitulating to Russia's aggression, Ukraine's leadership has only expanded its declared war aims, which now include recapturing not only the land Russia has taken since February 2022 but also Crimea, annexed by Russia in 2014—an understandable aim but one that, despite supportive rhetoric from some Western officials, may prove unrealistic. For his part, Putin has in effect staked his regime on the war by publicly framing it as an existential issue for Russia.

As NATO struggles to meet Ukraine's ammunition needs in what NATO secretary-general Jens Stoltenberg calls a "race of logistics" against Russia, the stakes are also high for Western countries. They fear first and foremost the security implications for themselves and the broader global order

should Russia prevail, which would shift geopolitical power in favour not only of Russia but also other rivals, such as China.

Western-bloc support for Ukraine therefore appears certain; the question is whether, amid multiple constraints (including on such crucial issues as production of ammunition to keep up with Ukraine's needs), it will prove sufficient to ensure that the military balance does not shift decisively away from Ukraine. While Ukraine has been securing increasingly sophisticated weapons from NATO members, we should not underestimate Russia's large reserves of sheer manpower and resources and its ability to put parts of its economy on a war footing to sustain the war. This factor, in turn, has to be balanced against Russia's underwhelming performance in the war so far, its substantial personnel losses last year, and indications that it may be suffering from depleted artillery and ammunition reserves. Military analysts are sceptical about the prospects for substantial territorial gains by either side. And so, even if Western support for Ukraine does prove sufficient, the possibility of a stalemate further down the line—with both sides exhausted but unwilling to cede defeat and unable to make notable gains—looms.

Divisions within the Western bloc persist at both government and public levels. Contrast the relative "hawks" in Poland and the US, for example, with more concession-prone voices in France and Germany. For now, the focus is on bolstering Ukraine's position for the months (and possibly years) ahead, but eventually the West may push Ukraine for a settlement—perhaps one not officially endorsed by any side—that leaves some Ukrainian territory in Russian hands while putting Ukraine in the strongest position to defend its remaining territory and exist as a viable state economically, politically, and militarily. In the meantime, the focus will be grinding down Russian military potential in the hope that eventually the country's political leadership becomes convinced that it cannot improve its position, likely a prerequisite for Russia to contemplate some kind of settlement, however temporary and half-hearted. Yet this end goal remains remote.

GEOPOLITICS: US AND ALLIED SUPPORT FOR UKRAINE STILL RESILIENT DESPITE A DEGREE OF VOTER FATIGUE

Scepticism about the levels of support provided to Ukraine is gaining some ground in the US but will likely fail to curb support for Ukraine. President Biden's administration has shown a willingness to provide political, material, financial, and intelligence support to Ukraine, but support for the high levels of assistance currently offered is falling somewhat among the American public. Ahead of the 2024 US presidential election, both declared Republican candidate Donald Trump and expected candidate Ron DeSantis have attacked what they and other critics misleadingly label Biden's "blank cheque" approach to Ukraine. Nevertheless, the American public remains broadly supportive and the Republican party is divided on the issue, so any significant reduction in aid to Kyiv looks unlikely this year. However, the mere prospect of a more accommodative president in the White House from 2025—and a shift away from the current consensus on support for Ukraine in the run-up—risks emboldening Putin as he looks to stay the course in what is likely to be a protracted war.

Continuing Western weapons supplies for Ukraine, together with Russia's now-limited economic leverage against the West, could push Putin into a more aggressive nuclear stance, threatening Western resolve. Putin's failure to seriously dent European resolve by cutting off most gas to Europe means he has lost critical economic leverage over the West. While positive for Western solidarity, this, together with increasing Western military support for Ukraine, may also mean that he increasingly falls back on testing the West's mettle on security-related issues. Putin's recent speech, in which he suspended Russia's participation in its New START nuclear arms control treaty with the US and called on state-owned nuclear developer Rosatom to ensure readiness for restarting nuclear testing, was deliberately calculated to pressure the West and its allies. For now, we believe that nuclear rhetoric is more useful for Russia than actual deployment, or indeed restarting tests, which Putin claims will only happen in response to similar moves by the US. However, the nuclear threat will become more acute in the event of serious Russian setbacks on the battlefield.

China continues to tread a fine diplomatic line, providing at least indirect diplomatic support for Russia's position on the war while undermining that of Ukraine and the West. China's recent "position paper" on the war does not present solutions acceptable to Ukraine or the West. It does not stipulate that Russia withdraw from territory it has occupied and ultimately blames NATO, rather than Russia, for the war. It is therefore a self-serving document intended to legitimise China's willingness to engage with Russia, as it hopes that the conflict will not only continue to offer lucrative economic opportunities for China (such as oil at below market prices) but ultimately further China's and Russia's shared goal of chipping away at perceived US/Western hegemony.

What remains unclear is whether Beijing is also using peaceful diplomatic gestures as a smokescreen to lay the ground for a greater danger: moving beyond providing Russia with dual-use capabilities to providing lethal aid. According to US intelligence, negotiations between the two sides are ongoing on potential Chinese supplies of drones and ammunition. We are sceptical that China is willing to openly renounce its (ostensibly) neutral position on the conflict by taking this radical step, not least because of the prospect of Western expanded sanctions on China. However, major Russian setbacks on the battlefield could shift China's position to one of more direct support.

THE IMPACT FOR GLOBAL BUSINESS: INCREASED COMPLEXITY AND QUESTIONS OVER END-USE SUPPLY CHAINS

Sanctions are reaching a ceiling. We are seeing diminished scope for Western states' willingness to tolerate further harm to their own economic interests by substantially expanding sanctions into further key areas of the Russian economy. Owing to Western countries' own economic interests, some key sectors of the Russian economy remain largely untouched by sanctions, including uranium production. Restraint is also evident in the G7's opting for a price cap on Russian oil in an attempt to limit Russian hydrocarbon revenues but without causing the market turmoil associated with a full-blown

sanctions regime (i.e. one that would include extraterritorial sanctions on entities from non-sanctioning nations that purchase Russian crude).

A greater focus on expanding and (re)enforcing existing sanctions is expected, particularly those relating to the military-industrial complex—posing an issue for companies operating in complex electronics supply chains. Recent examples of this trend include the EU's decision to add to its list of banned exports various electronic components used in Russian weapons systems retrieved on the battlefield. Meanwhile, Japan has added Russia's private military firm Wagner Group to its sanctions list. Another trend is to impose (or increase) tariffs on key Russian commodities, rather than risk market turmoil by opting for full sanctions. A recent case in point: the US decision to raise tariffs on Russian aluminium but not ban it outright.

A notable focus in the coming months is the even murkier world of (re)exports to Russia of prohibited goods, and the foreign governments and entities that, not always knowingly, are facilitating such trade. Recent data indicate that trade between Russia and several of its neighbouring states has risen significantly since the imposition of sanctions, suggesting a rising trend by which companies in states such as Kazakhstan, Armenia, and China import electrical goods from the West before reselling to the Russian market. Many of these exports include consumer goods and machinery whose components, such as semi-conductors, are dual use, i.e., can be used directly in the manufacture of military equipment.

The US/EU may struggle to get transit countries to crack down on sanctions busting and re-exports of dual use goods, meeting resistance even from countries that seek to maintain warm ties with the West. Meanwhile, even firms without direct Russian connections must also navigate the challenges arising from the war, from supply chain complications and unpredictable energy markets to sanctions exposure and public scrutiny of their international operations. The focus on re-exports will inevitably catch off guard some well-meaning companies that, for example, were unaware of the ultimate destination of their increased exports to countries neighbouring Russia, and so may need to rethink their trading relationships with certain clients in some countries neighboring Russia.

Any business perceived to be dragging its feet on leaving Russia will be subject to more scrutiny from Ukraine and from civil society in the West. In the

immediate wake of Moscow's invasion thousands of Western firms began the process of withdrawing from Russia, closing, or selling off operations in the country out of fear of reputational damage or simply because sanctions made their operations untenable. A year on, data indicate that some Western businesses, despite committing to leaving, have only partially withdrawn from the country. Scrutiny of those firms still operating in Russia is rising, bolstered by strong public criticism from Ukrainian politicians and segments of the Western public. In recent weeks we have seen Ukrainian NGOs writing directly to Western companies to question their residual involvement in Russian supply chains and import/export.

However, businesses with operations in Russia continue to face complications in attempting to withdraw from the country, from difficulties in finding buyers to threats of legal action for voluntary bankruptcy if they shut down their operations. As such, despite considerable public and political pressure, many have been unable or unwilling to withdraw on terms they view as acceptable, or else they have headed for the exit too late and found themselves unable to leave as Putin clamps down on corporate departures, particularly from key strategic sectors such as banking.

SUPPORT FROM J.S. HELD

J.S. Held's political risk and business intelligence division can help businesses deal with the issues raised in this piece, from sanctions advisory, to assisting companies leaving the Russian market while minimising the impact on asset and personnel risk.

ACKNOWLEDGMENTS

We would like to thank [Chris Tooke](#), [Cara Hatton](#), and Gabriel Barrie for providing expertise and insight that greatly assisted this research.

MORE ABOUT J.S. HELD'S CONTRIBUTORS

[Chris Tooke](#) is a Director in J.S. Held's [Global Investigations](#) practice. He joined J.S. Held in May of 2022 as part of [J.S. Held's acquisition of GPW](#). Chris is a leading specialist on political and regulatory risks in the emerging markets of Eastern Europe and the former Soviet region. He works for major clients—ranging from banks, TMT, mining, and oil and

gas companies, to sovereign governments—to help them understand the political and operational environment in their target markets. Chris holds a fully funded doctorate from UCL/SSEES, where he also taught on undergraduate Russian language and culture courses. Before joining J.S. Held, he worked at The Economist Intelligence Unit, focusing on post-Soviet countries.

Chris can be reached at chris.tooke@jsheld.com or +44 20 7629 9299.

[Cara Hatton](#) is a Consultant in J.S. Held's [Global Investigations](#) practice. She joined J.S. Held in May of 2022 as part of [J.S. Held's acquisition of GPW](#). Cara specializes in political risk and due diligence assignments across a diverse range of geographies. She has a background in geopolitical risk assessments and previously worked at a geopolitical risk consultancy, where her work focused on the Middle East and Eastern Europe.

Cara can be reached at cara.hatton@jsheld.com or +44 20 7629 9299.

This publication is for educational and general information purposes only. It may contain errors and is provided as is. It is not intended as specific advice, legal or otherwise. Opinions and views are not necessarily those of J.S. Held or its affiliates and it should not be presumed that J.S. Held subscribes to any particular method, interpretation or analysis merely because it appears in this publication. We disclaim any representation and/or warranty regarding the accuracy, timeliness, quality, or applicability of any of the contents. You should not act, or fail to act, in reliance on this publication and we disclaim all liability in respect to such actions or failure to act. We assume no responsibility for information contained in this publication and disclaim all liability and damages in respect to such information. This publication is not a substitute for competent legal advice. The content herein may be updated or otherwise modified without notice.